Postal Regulatory Commission
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BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

VALASSIS NSA	Docket No. MC2012-14
VALASSIS NSA	Docket No. R2012-8

NOTICE OF THE UNITED STATES POSTAL SERVICE OF FILING OF CONTRACT AND SUPPORTING DATA AND REQUEST TO ADD VALASSIS DIRECT MAIL, INC. NEGOTIATED SERVICE AGREEMENT TO THE MARKET-DOMINANT PRODUCT LIST

(APRIL 30, 2012)

In accordance with 39 U.S.C. § 3622 and § 3642, and 39 C.F.R. § 3010 and § 3020, *et seq.*, the United States Postal Service hereby provides notice that the Governors have authorized the Postal Service to enter into a negotiated service agreement (NSA) with Valassis Direct Mail, Inc. (Valassis). The agreement will become effective upon review of the Postal Regulatory Commission (PRC), at which time, the Postal Service requests that it be added to the market-dominant product list within the Mail Classification Schedule.[1] This is a market-dominant special classification within the meaning of 39 U.S.C. § 3622(c)(10).[2]

The Postal Service represents that it will inform customers of the new classification and associated price effects.[3] In addition to this Notice, the Postal Service will post notification of the NSA on USPS.com. The Postal Service also will publish notice of the NSA in the *Federal Register*. Thus, public notice is being given more than 45 days prior to the planned implementation date.

1 39 C.F.R. § 3010.42(a)(2), §§ 3020.31(a), (c), and (f)
2 *Id.* § 3020.31(c).
3 *Id.* § 3010.42(a)(3).

The Postal Service identifies Ms. Michelle Yorgey as the official who will be available to provide responses to queries from the Commission.[4] Ms. Yorgey's contact information is as follows:

Ms. Michelle Yorgey
Acting Manager, Pricing Strategy
475 L'Enfant Plaza S.W.
Room 4316
Washington, D.C. 20260-5015

The remainder of this request describes the agreement, identifies each operative component, and provides details regarding the expected improvements in the net financial position of the Postal Service accruing from it.[5] Attachment A is a copy of the Governors' resolution establishing the prices and classification.[6] Attachment B is a copy of the contract between the Postal Service and Valassis.[7] Attachment C contains the changes to the Mail Classification Schedule requested in association with this NSA.[8] Attachment D contains the data collection plan.[9] Attachment E is a statement of supporting justification for this request.[10] Attachment F contains the calculations underlying the financial analysis of the agreement.[11]

I. Description of the Agreement

The objective of this Standard Mail market dominant agreement is to maintain the total contribution the Postal Service receives from Valassis Saturation Mail postage, and to provide an incentive for Valassis to find innovative ways to expand its use of Standard Mail. Accordingly, this agreement is intended to generate new incremental

[4] *Id.* § 3010.42(a)(4).
[5] *Id.* § 3010.42(b)-(f).
[6] *Id.* § 3020.31(b).
[7] *Id.* § 3010.42(a)(1), (2).
[8] *Id.* § 3020.31(f).
[9] *Id.* § 3010.43.
[10] *Id.* § 3020.32.
[11] *Id.* § 3010.42(c).

Standard Mail Saturation volumes and revenues from new shared mail programs that will provide contributions to covering postal institutional costs through agreed-upon rates and eligibility conditions.

The marketplace for distribution of retail advertising circulars is dynamic and changing. Private delivery alternatives to the mail are becoming technologically more sophisticated, offering prices substantially below the current prices of mail distribution, and aggressively marketing their services to saturation mailers, newspapers, and retail advertisers. Saturation mailers are increasingly looking to private delivery options, and newspapers are extending their reach through Total Market Coverage and Sunday Select (distribution to non-subscribers) delivered via non-postal carriers. This poses challenges to the Postal Service in maintaining and growing its volumes, and increases the need to build programs that are competitively priced with a high value delivery service. With the right offer, the Postal Service can take advantage of recent market trends and make the best use of Postal Service capabilities.

Thus, the contracted flat rate offered to Valassis under the Standard Mail Saturation Mail pricing structure, combined with the conditions of the agreement, have been designed to foster Valassis' development of new multi-market saturation shared mail programs for particular retailers that, as a whole, currently underutilize the mail for distribution of their advertising circulars in Valassis' existing markets. Mailpieces eligible for contract prices under this NSA would be limited to Standard Mail Saturation Flats mailed within Valassis' existing mailing markets, and entered at a destination Sectional Center Facility (SCF) or Destination Delivery Unit (DDU). This NSA would provide a rebate to Valassis on a portion of postage paid on Standard Mail Saturation Flat mailpieces mailed under new shared saturation mail programs initiated by Valassis in its existing market areas, not on mailpieces mailed under a preexisting shared mail program.

The basic agreement consists of four key components: mailer eligibility, mail eligibility, mailing and volume commitments, and rebates on Standard Mail Saturation Flats Mail. A mailer under this NSA must be a Standard Mail Saturation Flat mailer who has the demonstrated capability to provide a broad multi-market shared mail program, as evidenced by shared mail volumes of at least 400 million pieces annually mailed to 50 percent of existing SCF areas. In each of the last two fiscal years, Valassis mailed more than 3 billion pieces of Standard Mail Saturation Flats in shared mail programs with a regular frequency of at least monthly, covering more than 60 million households weekly in 88 discrete market areas in 37 states.

To be eligible for the contract prices, Valassis must initiate new shared saturation mail programs in markets where it has maintained an existing Standard Mail Saturation mailing program on at least a monthly basis during the two years preceding execution of this NSA. In each market where Valassis initiates a new program under this agreement, it also must maintain its preexisting shared mail program for the duration of this agreement. The new shared saturation mail programs shall be limited to the carriage of advertising of durable and semi-durable goods retail providers with a physical retail outlet presence in 30 or more states. However, in order to ensure that the mailpieces in the new programs represent incremental mail volume and revenue to the Postal Service, Valassis can not transfer or consolidate advertising from current advertisers in its existing program into its new mailing program or extend the new program to zip codes or carrier routes that are beyond the market profile of its existing baseline mailing programs. Additionally, Valassis can not migrate advertising circular business from the USPS solo mail stream into the new saturation shared mail program. Violations of this requirement will subject Valassis to a penalty in the form of a surcharge equal to the USPS published solo mail price for such individual circular at the time of mailing.

Mailpieces mailed under the new shared saturation mail program must be Standard Mail Saturation Flats entered at a SCF or DDU, with minimum dimensions of at least 6.125” x 11.5” x .25”, and maximum dimensions no greater than 12” x 15” x .75”, and must contain a minimum of 3 advertising inserts and a maximum of 10 during at least 9 of 12 months of each contract year. The volume mailed to DDUs under this agreement must meet or exceed 85 percent of the total volume of pieces mailed under the NSA.

Valassis has agreed to initiate mailings under this agreement within 90 days following its effective date. If the initial mailing does not occur by that time, either party can cancel the agreement within 30 days. If Valassis decides to proceed with the agreement, it must mail at least 1,000,000 pieces during the next 12 months of the agreement or pay the Postal Service a one-time transaction fee of $100,000.

If Valassis meets all of the aforementioned conditions, it will earn an annual rebate on the USPS published prices it paid at the time of mailing according the following contract schedule:

Weight Per Piece	DDU Rate	SCF Rate
4 to 6.5 ounces	20% off published rates at time of mailing.	20% off published rates at time of mailing.
6.5 ounces to 9 ounces	$0.172	$0.185
9.0 ounces to 11 ounces	$0.211	$0.229
Over 11 ounces	20% off published rates at time of mailing.	20% off published rates at time of mailing.

The rebate will be calculated as the difference between the postage actually paid at the time of entry and the postage that would have been paid under the above contract price schedule. The annual rebate will be paid within 60 days after the end of each contract year. In the event that the Postal Service implements general price adjustments during the term of this agreement, the rebate prices for the 6.5-to-9 ounce and 9.0-to-11 ounce increments listed above will be adjusted by an amount equal to the percentage price change for Standard Mail Saturation Flats, provided that the resulting percentage rebates remain in the range of 22 percent to 34 percent. An adjustment is not necessary for the other increments, as the contract price is based on a percentage reduction from the published rates at the time of mailing.

The Standard Mail Saturation Flats mailpieces encompassed by this agreement will be entered exclusively under dedicated PostalOne™ permit accounts. The mailings under this agreement will be subject to a quarterly audit of: (a) mail pieces to monitor compliance and eligibility; (b) advertisers to assess diversion volume; and (c) weight of mailings. In each market where Valassis intends to initiate a mailing program under this agreement, it will give the Postal Service 30-day advance notification of its initial mailing date and schedule and its desired in-home delivery date.

The Postal Service regards each of the four main elements described above (mailer eligibility, mail eligibility, mailing and volume commitments, and rebates on Saturation Flats Mail) to be an essential component of this agreement, although the exact values for these parameters in the Valassis NSA were determined based on the Postal Service's evaluation of Valassis' volume and revenue trends, current and future economic conditions, and negotiation between the parties. Evaluation of these parameters supports the conclusion that the NSA will lead to significant additional contribution from Valassis. This design imperative — to generate additional contribution— and the basic structure of the agreement with Valassis, as described above, will guide the Postal Service in the negotiation of similar agreements, and may, in other NSAs, yield parameters that are substantially different from those in this agreement.

In assessing the desirability of this agreement, the Postal Service believes that the defining characteristics of Valassis are its size, its nationwide distribution network, and its significant volume of Saturation Mail. These characteristics enable Valassis to provide a new opportunity to durable and semi-durable good retail advertisers that is scalable across multiple media markets. In offering a similar agreement to other customers, the Postal Service will look for all of these characteristics, as well as any other conditions that might affect a favorable contractual arrangement.

II. Financial Analysis

The Postal Service estimates that this agreement will generate an additional $13 million to $42 million in contribution. The calculations that lead to this estimate are provided in the attached Excel workbook VDM_NSA_Financial_ModelFinal.xls (Attachment F). Based on Valassis' volume and revenue trends and expectations for current and future economic conditions, the Postal Service projects that during the 3 year term of the agreement, the value of the contract may exceed $107 million gross revenue and provide net revenue contribution exceeding $15 million after rebate expense and attributable cost.

If Valassis does not cancel the agreement after the expiration of the first 90 days or meet the 1,000,000 piece minimum for the ensuing 12 month period, the expected value of the agreement would still be positive, because of the penalty Valassis must pay, but likely would be substantially less than estimated.

IV. Conclusion

As explained above and in the supporting justification, the Postal Service believes that this agreement will improve the net financial position of the Postal Service and that it is appropriate to add it to the market-dominant products list. The Commission should therefore approve this request as set forth in its rules.

Respectfully submitted,

UNITED STATES POSTAL SERVICE
By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Pricing and Product Support

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April 30, 2012

ATTACHMENT A TO REQUEST

GOVERNORS' RESOLUTION

RESOLUTION OF THE GOVERNORS

OF THE

UNITED STATES POSTAL SERVICE

Resolution No. 11-4

Establishment of Market Dominant Product Classification and Rates

RESOLVED:

Pursuant to section 404(b) and Chapter 36 of Title 39, United States Code, the Governors establish mail classifications and rates corresponding to Domestic Market-Dominant Agreements, Inbound International Market-Dominant Agreements, and Other Non-Published Market-Dominant Rates. This change shall become effective immediately.

Domestic Market-Dominant Agreements consist of negotiated service agreements with Postal Service customers for domestic services that are categorized as market dominant in accordance with 39 U.S.C. § 3642(b)(1)-(2). Inbound International Market-Dominant Agreements consist of negotiated service agreements with foreign postal operators or other entities for inbound international services that are categorized as market dominant in accordance with 39 U.S.C. § 3642(b)(1)-(2). Other Non-Published Market-Dominant Rates consist of rates not of general applicability that are not embodied in contractual instruments, but nonetheless arise from other sources. Other Non-Published Market-Dominant Rates may include other types of non-contractual market-dominant rates not of general applicability, such as those offered under seasonal "sale" initiatives. With respect to any product or arrangement within these categories, management is hereby authorized to prepare any necessary product description, including text for inclusion in the Mail Classification Schedule, and to present such product description to the Postal Regulatory Commission.

For agreements and other rates subject to this Resolution, there are hereby established all prices that conform to 39 U.S.C. §§ 3622 and 3626, as applicable, and 39 C.F.R. §§ 3010.5 and 3010.40. The Chief Financial Officer (or his delegee(s)) shall review all prices subject to this Resolution to ensure that they conform to this Resolution and to the requirements of the PAEA.

Postal management is further directed to file with the Postal Regulatory Commission any necessary notice of modification of the product lists in the Mail Classification Schedule in accordance with Subpart B, Part 3020, of Title 39, Code of Federal Regulations, and to file any necessary request for a rate adjustment under Subpart D of Part 3010 of Title 39, Code of Federal Regulations.

On a quarterly basis, management shall furnish the Governors with a report on all non-published rate and classification initiatives. Not less than once each year, the Governors shall review the basis for this Resolution and make such further determination as they may deem necessary. This Resolution does not affect postal management's obligation to furnish to the Board of Governors information regarding any significant, new program, policy, major modification, or initiative, or any other matter under 39 C.F.R. § 3.7(d), including where such a matter also falls within the scope of this Resolution.

This Resolution does not supersede or otherwise modify Governors' Resolution Nos. 09-12, 10-5, and 11-2, nor does is affect the validity of prices and classifications established under those Resolutions.

The foregoing Resolution was adopted by the Governors on March 22, 2011.

Julie S Moore

Julie S. Moore, Secretary of the Board

ATTACHMENT B TO REQUEST

NEGOTIATED SERVICE AGREEMENT

NEGOTIATED SERVICE AGREEMENT

BETWEEN

THE UNITED STATES POSTAL SERVICE

AND

VALASSIS DIRECT MAIL, INC.

This Agreement is made by and between Valassis Direct Mail, Inc. ("Valassis"), with its principal place of business located at One Targeting Centre, Windsor, CT 06095, and the United States Postal Service ("the Postal Service"), an independent establishment of the Executive Branch of the United States Government established by the Postal Reorganization Act, Public Law 91-375, as amended, with its principal office at 475 L'Enfant Plaza, SW, Washington, DC 20260. The Postal Service and Valassis are referred to herein collectively as the "Parties" and each as a "Party."

WHEREAS, it is the intention of the Parties to enter into a Negotiated Service Agreement ("NSA") that will benefit the Postal Service, Valassis, and the postal system as a whole, and that will comply with the requirements of the Postal Reorganization Act and the Postal Accountability and Enhancement Act, Public Law 109-435,

NOW, THEREFORE, the Parties agree as follows:

I. Purpose and Description of NSA

The purpose of this agreement is to generate new incremental Standard Mail saturation volumes and revenues that will provide contributions to postal institutional costs through agreed-upon rates and eligibility conditions. These rates and conditions are designed to increase multi-market saturation shared mail in Valassis' existing markets to serve national durable and semi-durable goods retailers that, as a whole, currently underutilize the mail for distribution of their advertising circulars.

II. Definitions

"Shared mail program" is an advertising mailing program mailed to a geographic market area on a regular schedule, at least monthly, that contains advertising of multiple advertisers.

"Contract Pieces"......Mailpieces eligible for contract prices under this NSA are limited to Standard Mail Saturation Flats mailed within the Valassis' existing mailing markets, and entered at a destination SCF or DDU. These mailpieces must have minimum dimensions of at least

6.125" x 11.5" x .25", and maximum dimensions no greater than 12" x 15" x .75", and must contain a minimum of 3 advertising inserts and a maximum of 10 during at least 9 of 12 months of each contract year. All eligible mailpieces must comply with the standards of the Domestic Mail Manual (DMM), unless otherwise provided in this contract.

III. Key Conditions for NSA Treatment.

The Postal Service finds that the following key conditions, taken together, support this Negotiated Service Agreement:

A. Mail volume has been stagnant or declining. Under this agreement, the initiation of new shared mail programs for Saturation Mail would provide incremental volumes that would make significant financial contribution to covering postal institutional costs. The eligibility conditions of this NSA would also provide incentives for Valassis to retain its current mail programs in markets where it establishes new programs under this agreement.

B. This NSA would establish a particularized rate structure for Standard Mail Saturation Flat mail for a mailer that has the demonstrated capability to provide a broad multi-market shared mail program, as evidenced by shared mail volumes of at least 400 million pieces annually mailed to at least 50 percent of existing SCF areas.

C. Valassis has the demonstrated expertise and capacity to develop, market, and operate a broad multi-market Saturation Mail shared mail program within its existing markets geared to the needs of national durable and semi-durable goods retail advertisers. In each of the last two government fiscal years, Valassis mailed more than 3 billion pieces of Standard Mail Saturation Flats in shared mail programs with a regular frequency of at least monthly, covering more than 60 million households weekly in 88 discrete market areas in 37 states.

D. This agreement will apply only to new shared saturation mail programs initiated by Valassis in its existing market areas. In each such market, Valassis will maintain its preexisting shared mailing program, and will not transfer or consolidate advertising from current advertisers in its existing program into its new mailing program under this agreement, nor will it migrate advertising circular business from the USPS solo mail stream into the program covered by this agreement. Consequently, mailings under this agreement will represent incremental mail volume and revenue to the Postal Service.

E. The volume of Standard Mail Saturation Flats entered at a DDU must meet or exceed 85 percent of the total volume of Contract Pieces.

IV. Eligibility and Limitation to Existing Markets

A. The NSA is limited to Standard Saturation Flat mailers who have the demonstrated capability to provide a broad multi-market shared mail program, as evidenced by shared mail volumes of at least 400 million pieces annually mailed to 50 percent of existing SCF areas.

B. The contract prices in this agreement will be available to Valassis for new shared mail programs developed only in markets where it has maintained an existing Standard Mail Saturation mailing program on a regular schedule, at least monthly, during the two years preceding execution of this NSA. The new mailing program cannot extend to zip codes or carrier routes that are beyond the market profile of its existing baseline mailing program (i.e., cannot extend to areas that are neither contiguous to nor within the boundaries of its baseline market footprint).

C. In each such market where Valassis initiates a new program under this agreement, Valassis must maintain its existing shared mail program in that market for the duration of the agreement.

D. The new mail programs covered by this agreement are limited to the carriage of advertising of national retail advertisers, defined as retail providers primarily offering durable and semi-durable goods and having a physical retail outlet presence in 30 or more states.

E. In any given market, Valassis shall not consolidate or transfer advertising circulars from current advertisers in its existing programs into its new shared mail programs under this agreement.

F. Valassis shall not migrate advertising circular business from the USPS solo mail stream into the program covered by this agreement. Violations will be subject to a penalty in the form of a surcharge equal to the published solo mail price for such individual circular at the time of mailing.

G. Valassis must initiate mailing Contract Pieces under this agreement within 90 days following the Effective Date of this agreement, as defined below. If the initial mailing does not occur by that time, the agreement is subject to:

1. Cancellation by either Party within 30 days; or

2. If Valassis wishes to continue the agreement, it agrees to mail at least 1,000,000 pieces as defined in this agreement during the ensuing 12 months of the agreement. If mail volume does not reach 1,000,000 in that 12-month period, Valassis agrees to pay the Postal Service a one-time transaction fee of $100,000.

V. Eligible Mail Rebates and Thresholds

A. Rebate Eligibility. The NSA rebate price structure set forth below applies only to Contract Pieces under this agreement, as defined above. Rebates will be credited to Valassis's Permit or CAPS account.

B. Annual Rebates. All mail that is entered under this agreement will pay the applicable published prices in effect at the time of mailing, subject to an annual rebate based on the following contract price schedule by ounce increment:

Weight Per Piece	DDU Rate	SCF Rate
4 to 6.5 ounces	20% off published rates at time of mailing.	20% off published rates at time of mailing.
6.5 ounces to 9 ounces	$0.172	$0.185
9.0 ounces to 11 ounces	$0.211	$0.229
Over 11 ounces	20% off published rates at time of mailing.	20% off published rates at time of mailing.

C. Calculation and Payment. The rebate shall be calculated as the difference between the postage actually paid at the time of entry and the postage that would have been paid under the above contract price schedule. The annual rebate so calculated shall be paid to Valassis within 60 days after the end of each contract year.

D. Effect of General Price Adjustments. In the event that the Postal Service implements general price adjustments during the term of this agreement, the rebate prices for the 6.5-to-9 ounce and 9.0-to-11 ounce increments listed above will be adjusted by an amount equal to the percentage price change for Standard Mail Saturation Flats, provided that the resulting percentage rebates remain in the range of 22 percent to 34 percent. No such adjustment is necessary for the other increments, as the contract price is based on a percentage reduction from the published rates at the time of mailing.

VI. Compliance and Other Issues.

A. Tracking, Reporting and Auditing

1. The Standard Mail mailpieces encompassed by this agreement will be entered exclusively under dedicated PostalOne™ permit accounts, applying permit imprint indicia designated solely for the purpose of this agreement. The dedicated permits are intended for the sole purpose of mailings identified

in this agreement. No additional volume is permitted to be entered under these permits during the life of this agreement.

2. Valassis will provide volume and postage detail within 30 days of the close of each quarter for verification with postal records.

3. Mailings under this agreement will be subject to a quarterly audit of: (a) mail pieces to monitor compliance and eligibility; (b) advertisers to assess diversion volume; and (c) weight of mailings.

4. Procedures for auditing compliance with the terms and conditions described in this agreement will be established by the Postal Service after consulting with Valassis.

B. Compliance. Valassis will make necessary records and data available to the Postal Service to facilitate and monitor compliance with this agreement.

C. Advance Notifications. In each market where Valassis intends to initiate a mailing program under this agreement, it shall give the Postal Service 30-day advance notification of its initial mailing date and schedule and its desired in-home delivery date.

D. Appeals. Valassis may appeal a Postal Service decision regarding prices, the calculation of prices or rebates, the amount of rebates paid, or other implementation or operational issues under this agreement by submitting a written appeal within thirty (30) days of receipt of notification of the determination giving rise to the appeal to: Manager, Pricing and Classification Service Center, 90 Church St. Ste. 3100, New York, NY 10007-2951 ((212) 330-5300 / Fax: (212) 330-5320). The decision of the Manager, PCSC, will be administratively final. Any decision that is not appealed as prescribed becomes the final Postal Service decision.

E. Regulatory Review and Effective Date. This agreement is subject to approval by Postal Service senior management and/or the Governors of the Postal Service, as well as by the Postal Regulatory Commission ("the Commission"). In accordance with Title 39, United States Code, and the Commission's Rules of Practice and Procedure, 39 C.F.R. Chapter III, and upon approval of the Postal Service Governors, the Postal Service will make required filings with the Commission. The "Effective Date" of this agreement shall be the day on which the Commission issues all necessary regulatory approval.

F. Expiration Date and Termination. This agreement shall expire three years from the effective date, unless (1) terminated by mutual agreement in writing, (2) renewed or extended by mutual agreement in writing, (3) superseded by a subsequent written agreement between the Parties, (4) terminated by the

Commission or a court, or (5) required to comply with subsequently enacted legislation. Either Party may terminate this agreement unconditionally and without penalty upon thirty days' written notice to the other Party.

VII. Amendments.

This Agreement shall not be amended except expressly, in writing, by authorized representatives of the Parties.

VIII. Assignment

Neither Party may, or shall have the power to, assign its rights under the agreement or delegate its obligations hereunder, without the prior consent of the other; such consent is not to be unreasonably withheld. In addition, in the event that Valassis is merged with or into or acquires another entity, pricing under this agreement following such merger or acquisition shall apply only to mail sent by the entity existing prior to the merger or acquisition. Following any such merger or acquisition, the parties may negotiate in good faith to extend, modify or enter into a new agreement applicable to the merged or acquired entity.

IX. Waiver

Any waiver by a party shall not constitute a waiver for any future occurrence. No waiver shall be valid unless set forth in a writing executed by the party waiving such provision.

IN WITNESS WHEREOF, the Parties hereto have caused this Agreement to be duly executed as of the day and year first written above.

UNITED STATES POSTAL SERVICE	VALASSIS DIRECT MAIL, INC.
By:	By:
Printed Name: Gary Reblin	Printed Name: Steven Mitzel
Title: Vice President, Shipping Services	Title: SVP, Shared Mail General Manager
Date: 4/30/2012	Date: April 27, 2012

ATTACHMENT C TO REQUEST

MAIL CLASSIFICATION CHANGES

1600 NEGOTIATED SERVICE AGREEMENTS

[insert the underlined text below]

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VALASSIS DIRECT MAIL, INC. NEGOTIATED SERVICE AGREEMENT

Eligible Mailer: A mailer under this NSA must be a Standard Saturation Flat mailer who has the demonstrated capability to provide a broad multi-market shared mail program, as evidenced by shared mail volumes of at least 400 million pieces annually mailed to 50 percent of existing SCF areas.

Eligible Mail: Eligible Standard Mail under this section is defined as Standard Mail Saturation Flats mailed within Valassis' existing mailing markets, and entered at a destination SCF or DDU. These mailpieces must have minimum dimensions of at least 6.125" x 11.5" x .25", and maximum dimensions no greater than 12" x 15" x .75", and must contain a minimum of 3 advertising inserts and a maximum of 10 during at least 9 of 12 months of each contract year. The volume mailed at a DDU under this agreement must meet or exceed 85 percent of the total volume of pieces mailed under the NSA.

Mailing and Volume Commitments: To be eligible for the contract prices, Valassis must initiate new shared saturation mail programs within 90 days following the effective date of the agreement in markets where it has maintained an existing Standard Mail Saturation mailing program on at least a monthly basis during the two years preceding execution of this NSA. In markets where Valassis initiates a new program under the contract, Valassis also must maintain the preexisting shared mail programs for the duration of the agreement. The new shared saturation mail programs shall be limited to the carriage of advertising of retail providers, primarily offering durable and semi-durable goods, with a physical retail outlet presence in 30 or more states.

Valassis can not transfer or consolidate advertising from current advertisers in its existing program into its new mailing program or extend the new program to zip codes or carrier routes that are beyond the market profile of its existing baseline mailing program. Additionally, Valassis can not migrate advertising circular business from the USPS solo mail stream into the new saturation shared mail program.

Rebate. If Valassis meets these conditions, it will earn an annual rebate on the USPS published prices it paid at the time of mailing according the following contract schedule:

Weight Per Piece	DDU Rate	SCF Rate
4 to 6.5 ounces	20% off published rates at time of mailing.	20% off published rates at time of mailing.
6.5 ounces to 9 ounces	$0.172	$0.185
9.0 ounces to 11 ounces	$0.211	$0.229
Over 11 ounces	20% off published rates at time of mailing.	20% off published rates at time of mailing.

The rebate will be calculated as the difference between the postage actually paid at the time of entry and the postage that would have been paid under the above contract price schedule. In the event that the Postal Service implements general price adjustments during the term of this agreement, the rebate prices for the 6.5-to-9 ounce and 9.0-to-11 ounce increments listed above will be adjusted by an amount equal to the percentage price change for Standard Mail Saturation Flats, provided that the resulting percentage rebates remain in the range of 22 percent to 34 percent.

Reporting and Auditing. The mailings under this agreement will be subject to a quarterly audit of: (a) mail pieces to monitor compliance and eligibility; (b) advertisers to assess diversion volume; and (c) weight of mailings. In each market where Valassis intends to initiate a mailing program under this agreement, it will give the Postal Service 30-day advance notification of its initial mailing date and schedule and its desired in-home delivery date.

Penalties. If Valassis migrates advertising circular business from the USPS solo mail stream into the new saturation shared mail program, it will be subject to a penalty in the form of a surcharge equal to the USPS published solo mail price for such individual circular at the time of mailing.

If Valassis does not initiate a mailing within the first 90 days of the agreement, but does not terminate the agreement within the contracted 30 days, it must mail at least 1,000,000 pieces during the next 12 months of the agreement or pay the Postal Service a one-time transaction fee of $100,000.

Termination. Either Party may terminate this agreement unconditionally and without penalty upon 30 days written notice to the other Party.

Expiration. This agreement will expire three years from the effective date, unless (1) terminated by mutual agreement in writing, (2) renewed or extended by mutual agreement in writing, (3) superseded by a subsequent written agreement between the Parties, (4) terminated by the Commission or a court, or (5) required to comply with subsequently enacted legislation.

ATTACHMENT D TO REQUEST

DATA COLLECTION PLAN

Not later than 60 days after the end of each contract year, the Postal Service shall provide to the Postal Regulatory Commission a report of:

1. Valassis' volumes entered by qualifying price category for the preceding contract year
2. Valassis' postage paid by qualifying price category for the preceding contract year
3. The rebate paid to or penalty paid by Valassis (if any) and the calculations underlying their determination.
4. The volume and payment paid by Valassis (if any) for any mailings identified in violation of the terms for the migration of USPS solo Mail into the package detailed in the agreement.
5. The calculations used to determine the rebate prices for the 6.5-to-9 ounce and 9.0-to-11 ounce increments, which will be adjusted by an amount equal to the percentage price change for Standard Mail Saturation Flats, provided that the resulting percentage rebates remain in the range of 22 percent to 34 percent.

ATTACHMENT E

STATEMENT OF SUPPORTING JUSTIFICATION

I, David Mastervich, Manager, Saturation and Catalogs, am sponsoring this request that the Commission add the Valassis NSA to the list of market-dominant products. This statement supports the Postal Service's request by providing the information required by each applicable subsection of 39 C.F.R. § 3020.32. In addition, this statement provides the information required by 39 C.F.R. § 3010.42(b)-(e). I attest to the accuracy of the information contained herein.

(a) Demonstrate why the change is in accordance with the policies and the applicable criteria of chapter 36 of title 39 of the United States Code.

As demonstrated below, the change complies with the applicable statutory provisions.

(b) Explain why, as to market dominant products, the change is not inconsistent with each requirement of 39 U.S.C. § 3622(d), and that it advances the objectives of 39 U.S.C. § 3622(b), taking into account the factors of 39 U.S.C. § 3622(c).

The objectives of section 3622(b) are as follows:

(b) Objectives.—Such system shall be designed to achieve the following objectives, each of which shall be applied in conjunction with the others:

(1) To maximize incentives to reduce costs and increase efficiency.
(2) To create predictability and stability in rates.
(3) To maintain high quality service standards established under section 3691.
(4) To allow the Postal Service pricing flexibility.
(5) To assure adequate revenues, including retained earnings, to maintain financial stability.
(6) To reduce the administrative burden and increase the transparency of the ratemaking process.
(7) To enhance mail security and deter terrorism.
(8) To establish and maintain a just and reasonable schedule for rates and classifications, however the objective under this paragraph shall not be construed to prohibit the Postal Service from making changes of unequal magnitude within, between, or among classes of mail.
(9) To allocate the total institutional costs of the Postal Service appropriately between market-dominant and competitive products.

To a large extent, this agreement does not substantially alter the degree to which Standard Mail prices already address these objectives, or they are addressed by the design of the system itself (Objectives 1, 2, 3, 6, 7, 8, and 9). The agreement itself is an important example of the increased flexibility allowed the Postal Service under PAEA (Objective 4), and the fact that the agreement will provide an incentive for profitable new mail will enhance the financial position of the Postal Service (Objective 5).

In addition to the objectives specified and discussed above, section 3622(c) enumerates fourteen factors, or considerations, that must be taken into account, which are as follows:

> (c) Factors.—In establishing or revising such system, the Postal Regulatory Commission shall take into account—
>
> (1) the value of the mail service actually provided each class or type of mail service to both the sender and the recipient, including but not limited to the collection, mode of transportation, and priority of delivery;
>
> (2) the requirement that each class of mail or type of mail service bear the direct and indirect postal costs attributable to each class or type of mail service through reliably identified causal relationships plus that portion of all other costs of the Postal Service reasonably assignable to such class or type;
>
> (3) the effect of rate increases upon the general public, business mail users, and enterprises in the private sector of the economy engaged in the delivery of mail matter other than letters;
>
> (4) the available alternative means of sending and receiving letters and other mail matter at reasonable costs;
>
> (5) the degree of preparation of mail for delivery into the postal system performed by the mailer and its effect upon reducing costs to the Postal Service;
>
> (6) simplicity of structure for the entire schedule and simple, identifiable relationships between the rates or fees charged the various classes of mail for postal services;
>
> (7) the importance of pricing flexibility to encourage increased mail volume and operational efficiency;
>
> (8) the relative value to the people of the kinds of mail matter entered into the postal system and the desirability and justification for special classifications and services of mail;
>
> (9) the importance of providing classifications with extremely high degrees of reliability and speed of delivery and of providing those that do not require high degrees of reliability and speed of delivery;
>
> (10) the desirability of special classifications for both postal users and the Postal Service in accordance with the policies of this title, including agreements between the Postal Service and postal users, when available on public and reasonable terms to similarly situated mailers, that—
>
> (A) either—

(i) improve the net financial position of the Postal Service through reducing Postal Service costs or increasing the overall contribution to the institutional costs of the Postal Service; or

(ii) enhance the performance of mail preparation, processing, transportation, or other functions; and

(B) do not cause unreasonable harm to the marketplace.

(11) the educational, cultural, scientific, and informational value to the recipient of mail matter;

(12) the need for the Postal Service to increase its efficiency and reduce its costs, including infrastructure costs, to help maintain high quality, affordable postal services;

(13) the value to the Postal Service and postal users of promoting intelligent mail and of secure, sender-identified mail; and

(14) the policies of this title as well as such other factors as the Commission determines appropriate.

As with the Objectives of section 3622(b), the agreement does not substantially alter the degree to which Standard Mail prices address many of the Factors of section 3622(c) (Factors 1, 4, 5, 6, 8, 9, 11, 12, 13, and 14). The agreement does encourage increased mail volume (Factor 7) by requiring Valassis to introduce a new shared mail program and by providing an opportunity to moderate price increases (Factor 3). In addition, the discounts provided in the agreement will not imperil the ability of Standard Mail (or this agreement) to cover its attributable costs (Factor 2). Finally, as discussed in the body of this request, the agreement addresses the desirability of special classifications that improve the net financial position of the Postal Service by increasing contribution (Factor 10).

(c) Explain why, as to competitive products, the addition, deletion, or transfer will not result in the violation of any of the standards of 39 U.S.C. § 3633.

Not applicable. The Postal Service is proposing that this agreement be added to the market-dominant product list. See (e) below.

(d) Verify that the change does not classify as competitive a product over which the Postal Service exercises sufficient market power that it can, without risk of losing a significant level of business to other firms offering similar products: (1) set the price of such product substantially above costs; (2) raise prices significantly; (3) decrease quality; or (4) decrease output.

Not applicable. The Postal Service is proposing that this agreement be added to the market-dominant product list. See (e) below.

(e) Explain whether or not each product that is the subject of the request is covered by the postal monopoly as reserved to the Postal Service under 18 U.S.C. § 1696 subject to the exceptions set forth in 39 U.S.C. § 601.

The agreement applies to pieces mailed as, Standard Mail Saturation Flats; therefore, all volume under the agreement is subject to the postal monopoly.

(f) Provide a description of the availability and nature of enterprises in the private sector engaged in the delivery of the product.

Numerous alternate delivery or private carrier delivery companies exist that provide household delivery of non-addressed advertising pieces. In addition, newspapers use their own or contracted carrier forces to distribute advertising along with the paper to subscribers in local markets, and an increasing number of newspapers use private delivery in local markets for distribution to nonsubscribers. The cost of private delivery is generally substantially lower than the Postal Service's price for saturation mail delivery.

The new shared saturation mail programs that would be covered by this agreement are viewed as an alternative to those methods and enable the introduction of a nationwide scalable offering regardless of the availability of local distribution.

(g) Provide any information available on the views of those who use the product on the appropriateness of the proposed modification.

Having entered into this agreement with the Postal Service, Valassis supports adding this product to the product list so that the contract terms can be effectuated. Further, the Postal Service understands from Valassis that national durable and semi-durable goods advertising retailers indicate that these new shared saturation mail programs would provide them an affordable service alternative, which they do not now have, and would therefore be beneficial to their marketing programs.

(h) Provide a description of the likely impact of the proposed modification on small business concerns.

The Postal Service has no information on the extent to which small businesses currently deliver advertising from the national retailers that are encompassed by this agreement. The agreement does not include the carriage of advertising from advertisers whose scope is regional or local, and also does not include advertising from service businesses or non-durable good retailers such as grocery stores. These excluded categories likely account for a major portion of the advertising carried by small businesses. Consequently, the Postal Service expects that the impact on such businesses will not be substantial.

(i) Include such information and data, and such statements of reasons and bases, as are necessary and appropriate to fully inform the Commission of the nature, scope, significance, and impact of the proposed modification.

The primary justification for a Negotiated Service Agreement that will facilitate the new shared mail advertising offered by Valassis is the dynamic nature of how durable goods retailers are reaching the consumer. Retailers are searching for ways to maintain and increase the exposure to their consumer audience. Consumer preferences and behavior have decreased the effectiveness of the traditional distribution of advertising.

The market conditions behind the development of this agreement are varied and act to reduce the market impact of the NSA. The market impact is minimized during the 3 years of the agreement due to the changes occurring in the marketplace, the limited introduction and number of markets using the mailpieces contemplated by this agreement, and the resulting limited financial impact.

1. The primary changes in the marketplace that minimize the impact are the following:

- Consumer preference for digital delivery of advertising versus traditional print media is increasing.
- The increase of digital advertising and the impact of social network marketing are affecting the way all companies pursue integrated marketing campaigns.
- Advertisers increasingly use alternate or private delivery to achieve desired distribution coverage.

2. The desirability of this agreement is based on providing an alternative to a limited number of targeted advertisers and a gradual increase of markets.

- The new saturation shared mail programs contemplated by this agreement are viewed as an alternative and supplement to existing distribution channels. They are not considered a replacement, but rather a means to achieve or maintain desired market coverage, regardless of changes in existing distribution channels.

- The potential customer list is focused on large national durable goods retailers, and will exclude (a) non-durable goods retailers such as grocers, drug stores, fast food, and service businesses, and (b) durable goods retailers whose scope is regional or local.
- The initial year of agreement will focus on select test markets.

3. The limited introduction and focus of this agreement will have minimal financial impact on the marketplace. Because new saturation shared mail programs contemplated by this agreement are considered an alternative or supplement for existing distribution, the financial impact on existing channels is not expected to cause undue harm to the marketplace. For example, the high forecast of gross revenue of $107 million during year 3 of the agreement is only 0.6 percent of the total forecasted newspaper advertising revenue of $17.2 billion in 2014.* *Magna Global US Media Forecast January 2012.

The rebate mechanism itself also mitigates impact in the marketplace. Valassis will pay full postage on all mailings at the time of mailing, with rebates payable only after the end of each year of the agreement. Thus, Valassis will at all times bear the full upfront postage cost and marketplace risk, pending subsequent rebates up to a year or more after the mailing.